TRUST ME

FRAUDS, SCHEMES, AND SCAMS AND HOW TO AVOID THEM

GORDON G. LEEK

TRuST ME

FRAuDS, SCHEMES, AND SCAMS AND HOW TO AVOID THEM

GORDON G. LEEK

DUNDURN PRESS
TORONTO

Copyright © 2010 Gordon G. Leek

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by a
means, electronic, mechanical, photocopying, recording, or otherwise (except for brief passages for purposes of review) without t
prior permission of Dundurn Press. Permission to photocopy should be requested from Access Copyright.

Project Editor: Michael Carroll
Editor: Jennifer McKnight
Design: Courtney Horner
Printer: Webcom

Library and Archives Canada Cataloguing in Publication

Leek, Gordon G.
Trust me : frauds, schemes, and scams and how to avoid them / by Gordon G. Leek.

Includes bibliographical references.
ISBN 978-1-55488-705-7

1. Fraud--Prevention. 2. Swindlers and swindling--Prevention. I. Title.

HV6691.L36 2010 364.16'3 C2009-907533-4

1 2 3 4 5 14 13 12 11 10

We acknowledge the support of the **Canada Council for the Arts** and the **Ontario Arts Council** for our publishing program. W
also acknowledge the financial support of the **Government of Canada** through the **Canada Book Fund** and **The Association for t
Export of Canadian Books**, and the **Government of Ontario** through the **Ontario Book Publishers Tax Credit program**, and t
Ontario Media Development Corporation.

Care has been taken to trace the ownership of copyright material used in this book. The author and the publisher welcome a
information enabling them to rectify any references or credits in subsequent editions.

J. Kirk Howard, Preside

Printed and bound in Canada.
www.dundurn.com

Dundurn Press	Gazelle Book Services Limited	Dundurn Press
3 Church Street, Suite 500	White Cross Mills	2250 Military Road
Toronto, Ontario, Canada	High Town, Lancaster, England	Tonawanda, NY
M5E 1M2	LA1 4XS	U.S.A. 14150

This book is dedicated to my wife Debbie and my sons Garrett and Jason, for their support throughout my policing career

CONTENT

Trevor was a successful small business man in the financial planning and insurance industrie Through hard work and developing his client base, Trevor established a large network of associat and clients. One of these associates was Michael Fischer. Michael approached Trevor with a busine proposition that would also benefit Trevor's clients.

Michael had developed contacts in the aircraft industry where he was able to purchase blocks seats from different airlines at considerably lower than regular book prices. These tickets could th be resold at a profit to companies for business flights or as part of a vacation package. If Trevor wou be able to get some investors together they could all take advantage of this opportunity.

Michael provided Trevor with the paperwork and the books that detailed how the block-buyi worked and what the profit margins would be. Convinced, Trevor contacted ten of his clients a convinced them to invest $25,000 each. Unbeknownst to Trevor, he had unwittingly bought into Ponzi scheme that Michael Fischer had set up. The result was Trevor and his fellow investors lost ov $250,000 to this scheme.

When Trevor told me about how he lost his money he was understandably upset. However, he w not just upset about being scammed, but he was also upset on how he was treated by the police. No o appeared to understand that he was a victim. Trevor was told by the investigators he met that this w simply a bad business deal and it was therefore not a police matter.

Trevor then came to me to ask for my opinion. Although not part of the Commercial Crime Unit the time, at Trevor's request I completed an initial investigation and report that detailed the frau committed. Armed with this, and evidence obtained through a private investigator that Trevor hire Trevor went back to the police, who then pursued the case.

After twenty-five years as a police officer, and before I was assigned to the Commercial Crim Unit, I often wondered how people could get caught up in these various schemes. To me, at least, th appeared to be blatant lies with nothing to back them up. Why would someone fall for this? Are the people just greedy or simply that stupid? I knew Trevor wasn't either of these things.

As a member of the Commercial Crime Unit and serving with the Alberta Partnership Again Cross-Border Fraud investigating international mass-marketing fraud cases, I had the opportunity interview hundreds of victims of fraud. I began to realize that there is a reason why they we targeted. Most fraud victims are trusting people that would not be able to comprehend someo deliberately deceiving them. They just happened upon an opportunity presented to them that had t potential of making themselves some money. In other cases, it was a chance to help someone, wheth an acquaintance, a charity, or a family member.

I also discovered that with more complex fraud schemes, nearly all of the victims had heard abo the various schemes through the newspaper, television, or movies, but none of them really understo how the ruse actually worked, or how they could be or actually were drawn into the ploy.

Trust Me: Frauds, Schemes, and Scams and How to Avoid Them was written to help victims a potential victims recognize and understand how a fraud scheme works. It also explains how fraudste select their victims and induce them to participate in their scheme and turn over thousands of doll and life savings.

It is a sad fact of life that police departments do not have the manpower or resources to investig most fraud cases in a timely manner, or even investigate at all if the dollar value is under a certa ~~amount, regardless of the impact to the victim. By using case studies that illustrate these schemes~~, it hoped that the reader will gain a better understanding of how a fraud scheme works, and in turn b prepared to avoid becoming a victim themselves.

As for the case involving Trevor and Michael Fischer, following a two-year investigation Fische was sentenced to three years in jail. He has served his sentence and is currently avoiding a crimin organization that he also scammed. Trevor repaid his investors in an attempt to restore his busine reputation. He was never able to recover any of the money that he and his clients gave to Fischer.

Note from the author: All references to the places and people featured in the case studies have bee changed to protect the guilty and the innocent.

ACKNOWLEDGEMENT

This is the first project of this kind that I have undertaken. It has been an interesting learnin experience for me, and one that I could not have completed without the help of friends and family, fo which I am truly thankful. To Johanna and Anne of Bates Literary Agency, thank you for you guidance and patience in bringing this project together. To members of the Alberta Partnershi Against Cross-Border Fraud, the Calgary Police Service Commerical Crime Unit/Fraud Detail, an those fraud investigators who know that the pen can indeed be mightier than the sword. To my friend Phil, Mark, Sharon, and Sandy, thanks for your support and comments while writing and developin this book. To my sister and brother-in-law, Jan and Bob, your insight and experience that you share with the initial edits and drafts were great. And to my family, Debbie, Garrett, and Jason, thank yo for just being there.

Gordon G. Leek
Airdrie, Alberta, 2010

[They] look upon fraud as a greater crime than theft … for they allege that care and vigilance, with very common understanding, may preserve a man's goods from thieves, but honesty hath no fenc against superior cunning … [W]here fraud is permitted or connived at, or hath no law to punish it, th honest dealer is always undone, and the knave gets the advantage.

Jonathan Swift, *Gulliver's Travels*

THE CONSTRUCTION
OF A FRAU

In October 2003, Jamie Cardinal opened an account at a bank in Fort Macleod, Alberta. Two day later, Cardinal deposited a cheque into this account at the Calgary branch of the same bank. A secon and a third cheque was deposited at two other branches of the bank into the same account. Two day after making his last deposit, Cardinal attempted to make a number of cash withdrawals from h account but was unable to do so. He tried again the next day but was again frustrated.

By the end of the week, Cardinal was calling the bank manager, asking why he could not access h funds and when they would be available. The manager explained that, because the cheques were fro out of province, it would take a few days before the funds would be released. Cardinal told th manager that he would call him back in a few days. The manager never heard from Cardinal agai When the cheques were examined at the bank, it was discovered that they were all drawn on company account that had its headquarters in Oshawa, Ontario. However, a closer examination of th cheques revealed more. The cheques that Cardinal deposited were “bleached” cheques and Cardinal name had been inserted in place of the original name. In addition to this, the amounts of the chequ had been altered.

Surveillance photographs of Cardinal making these deposits at the bank, and fingerpri examination of the cheques, all linked Cardinal to this offence. He was subsequently charged wi fraud under $5,000, under Section 380(b) of the Criminal Code of Canada.

Paula was an employee of the Real Canadian Superstore in Calgary, Alberta. She would use th stand-alone bank machine, located in the foyer of the store, to withdraw cash after work. Aft Christmas, Paula noticed there were several cash withdrawals that she did not make. She contacted th police and claimed that someone had stolen her debit card and had taken money from her account. S did not know how this could have happened to her. In Paula’s opinion, if her bank card had been stole and used, the bank should reimburse her for the stolen money.

In the course of their investigation, the police interviewed Paula and other employees at th Superstore. The police learned that Paula had a habit of using the bank machine without taking an precautions about hiding her Personal Identification Number (PIN) from other employees. Paula w also in the habit of leaving her card on a desk in the employee common room. This provided anyo who worked for the Superstore free access to Paula’s card without her knowledge.

Paula told the police that she was under the impression that the bank machine, and all ban machines, contained video surveillance cameras and the police could easily catch the culprit. T police explained to Paula that few ATMs have cameras. Without sufficient evidence to proceed wi their investigation, the police informed Paula that there was nothing they could do for her. Pau resigned herself to the fact that her money was gone and that the bank would not compensate her f the loss.

WHAT IS FRAUD ANYWAY?

The crime of fraud is defined under the Criminal Code of Canada Section 380. The section read
380~~(1) Everyone who, by deceit, falsehood or other fraudulent means, whether or not it is a~~ fal
pretence within the meaning of this Act, defrauds the public or any person, whether ascertained or no
of any property, money, or valuable security or any service,

(a) is guilty of an indictable offence and liable to a term of imprisonment not exceeding te years, where the subject-matter of the offence is a testamentary instrument or the value of th subject matter of the offence exceeds five thousand dollars; or

(b) is guilty

(i) of an indictable offence and is liable to imprisonment for a term not exceeding two year or

(ii) of an offence punishable on summary conviction,

Where the value of the subject-matter of the offence does not exceed five thousand dollars.[1]

But what does this mean to the average person? We have all had an experience that, to our mind was definitely some sort of fraud. How does the above definition differ from what we know to be fraud?

Fraud is an act of theft committed under special circumstances. Those circumstances are general considered to be:

1. the person/victim was willing to part with the money, item, or service;
2. the fraudster used some form of deceit or trickery to obtain the money, item, or service; and
3. the person suffered some form of loss as a result of the trickery.

Fraud can be defined in more simple terms as "deprivation through deception," where th deprivation is the loss of the money, item, or service, and the deception is the trickery.

The problem with investigating and determining claims of a fraudulent act is that they frequent tend to straddle the borderline between a civil matter and a criminal act. To complicate this furthe victims are often confused about what they consider a moral obligation and a criminal act. Because this confusion, it may be worthwhile taking a moment to differentiate between a criminal matter and civil matter.

Civil matters involve some form of agreement between at least two parties, such as the writing of cheque. A cheque can be described as a contract whereby one person is saying, "I have sufficie money to purchase your item," and the other person states that he is willing to sell that item for th agreed amount.

If the cheque cannot be negotiated, or "bounces" for some reason, such as non-sufficient fun (NSF) in the account, the person who wrote the cheque has technically committed a crime. Howeve if it was a simple matter of poor bookkeeping that caused an overdraft to the person's account, a frau was not necessarily committed. In legal terms, there was no *mens rea*, meaning guilty mind, or *inte* to commit fraud upon the person who obtained the cheque. If, however, there was no money in th account, or there had never been sufficient money in the account, and the person writing the chequ knew there was no money or insufficient funds in the account, then that person has knowing committed fraud. In this case, the person deliberately deceived the other party by implying that he ha sufficient means to cover the amount of the cheque.

Moral obligations are more difficult to define because we each have our own views and beliefs o what we consider moral behaviour. Imagine you've contracted someone to repair your roof. You agre on a price and the money is paid for the repair. However, you do not establish with the contractor wh quality of materials will be used, the standard to which the job will be done, or whether the job guaranteed. You expect that the person you contracted to do the job will do the best job possible, ju like you would.

After two months, and after the first rain, the roof leaks. When you call the contractor, he tells yo he did the best he could. He can account for all of the money spent and the time he took doing the jo You demand that he fix the leak, but he tells you that he is too busy and the job is only guaranteed fo thirty days, whether or not it rains in that time period.

Has the contractor committed a fraud or criminal act? No, he has not. All of the material and tim has been accounted for and spent on the repair. Morally, should he repair the leak? Most of us woul say so. Legally, can the contractor be forced to repair the leak? The civil courts would have to decide

Often issues of fraud become confused because of the terminology used by the parties involve Fraud victims will claim that they loaned the fraudster the money and now he won't pay it back, that the money was to help the fraudster out by paying his rent but instead he bought alcohol or drug with the money. These types of circumstances generally fall into the realm of civil matters. Th victim has issued credit to the individual, and now must seek a civil remedy, such as small clain court, cashiering, or taking part of their wages to regain their money.

The Criminal Code of Canada section on fraud also refers to a "false pretence." A false pretence is statement by the fraudster of a fact that is known by the person to be false or untrue. The purpose the false statement is to cause the victim to act upon the information as if it were true. The fal statement goes beyond simple exaggeration. The "statement" can be made by words, either verbally in writing, or by deeds or actions, such as presenting a counterfeit document. We will look at som cases where the fraudster makes these statements and causes the victim to act upon these statements.

THE PSYCHOLOGY OF FRAUDSTERS AND VICTIMS

Too often fraud victims are dismissed as greedy, naïve, or just plain stupid and deserving of what the got. In some instances, this may be very true, but it is not necessarily the case for the majority of frau victims.

Traditionally, we view ourselves as rational, logical individuals. We analyze the situation, weig the risks against the potential benefits, and make our choices. Social psychologists, such as Car Tavris and Elliot Aronson, believe that all of us have certain prejudices and biases programmed o "hard-wired" into our subconscious that justify our beliefs and perceptions and, at times, override o logic and judgment. In their book, *Mistakes Were Made (But Not By Me)*, Carol Tavris and Elli Aronson state that the brain has "blind spots" that cause us to rely upon introspection to tell us how w think and feel about ourselves and our decisions. These blind spots then allow us to justify th decisions we make based upon those beliefs.[2]

One of these biases is how each of us perceives ourselves in comparison to others. Generall human beings have an inflated opinion of themselves. We believe that we are smarter, better lookin and more desirable than the people around us. How often have you looked at a couple and though

“What does she see in him?” or “I have more to offer than she does.” How often at work have yo thought, “Without me this place would just fall apart?”

This kind of bias is a necessary part of our psychological makeup. It provides us with th confidence in our own being to try new things, to stand on our own two feet, to survive, to walk ta and to make a difference in the world. It can also lead to overconfidence in our abilities and cause u to make incorrect decisions.

We also have the predisposition to believe what we hear, regardless of the circumstances in whic we heard it. Urban legends are often considered true, even when they have been disproved. One suc example of an urban legend is that of a celebrity rewarding a passing motorist for changing a flat ti or repairing their broken-down limousine. The story usually says that a motorist notices a lim stopped on the side of the road, often at night, with some form of mechanical trouble. The passin motorist stops and changes the tire or fixes a broken fan belt without realizing who the unfortuna celebrity is. Afterwards, the Good Samaritan learns that the stranded limo belonged to Bill Gates o Donald Trump, or some other rich celebrity, and the motorist was rewarded for his good deed b having his mortgage paid off.

On the surface, this story sounds like it could happen. However, when the circumstances a examined, the story falls apart. Stopping to help someone could certainly result in a reward, b paying off someone’s mortgage may be a little extravagant. One might also ask why the limo driv didn’t change the tire or why the celebrity didn’t call for roadside assistance.

This windfall myth speaks directly to our belief that no good deed should go unrewarded. It als emphasizes the belief that sometimes you just have to be in the right place at the right time.

Phrases that begin with the preface such as “They say…,” “I heard once…,” or “I read somewhe …” tend to take on a life of their own. These sayings become part of our daily speech and becon established in our minds, sometimes overriding our logic and better judgment. How many of us hav heard somewhere or used the axioms, “They say we all have a twin somewhere,” or “I read somewhe that no two snowflakes are identical.” Although none of us can say when or where we first heard th “undisputed” fact, it appears to make sense: therefore, we know that it’s true.

Another adage, “A little bit of knowledge can be a dangerous thing,” also holds true with regard fraudulent situations.[3] When a person hears of various fraud schemes on the news, it gives them false sense of bravado that again may overcome their judgment. They believe that by simply hearin of a scheme and by being alerted to the possibility that these fraudsters are out there, they now hav the necessary knowledge to avoid becoming a victim.

Short news clips and exposés can only provide a sketch of a scheme and the victims it impact However, the viewer believes they have gained more information than they really have. E subconsciously believing that, “I have seen this on television. You can’t fool me, I know all of you tricks,” victims set themselves up for failure.

Other victims believe that they don’t need to pay for expertise; for example, in buying and sellin stocks, they think they can do it just as well as anyone. Too many people believe that they have mo knowledge and experience than they really have. It is these inherent traits that fraudsters use again us to carry out their schemes.

GENERAL TRAITS OF FRAUDSTERS

When we compare fraudsters, or white-collar criminals, to others who commit property crimes such
theft, ~~robbery, and break and enters, there are several traits that separate them from their crimin~~
colleagues. Although not always present, the following traits are often common to all frauds, wheth
the fraud is committed in a business setting or targets a mass market:

> Fraudsters are often considerably older than regular property offenders, tending towar middle age. In business, they have reached a position within a company that allows them carry out their fraud. When committing frauds on their own or as part of a group or team, th have often developed skills that will assist them in carrying out their deceptions.
>
> Unlike property offenders, most fraudsters are not interested in the adrenalin rush or thrill the chase by the police and law enforcement, especially when it involves physical effort. Th are content to take a less strenuous or less physical approach to crime.
>
> A higher proportion of fraudsters are female, for several reasons. Traditionally women hav occupied the positions within a company that see them dealing with such matters as accoun payable, accounts receivable, and other clerical roles. This provides them with mo opportunity to commit fraud by virtue of their access to accounts, records, and cheque Additionally, women are in a higher proportion of positions in the retail and service industrie such as restaurants and lounges, where opportunities to access credit card information a higher. These occupational roles and types of fraud account for the higher proportion of fema fraudsters.
>
> In conjunction with being older than property offenders, most fraudsters have mo education than other criminals. They have at least some college education, which allowed the to obtain employment with the company in the first place.
>
> These fraudsters also have higher intelligence quotients than other criminals, which allo them to think in the abstract and to develop schemes. They know how to operate technolo with a confidence that fools others into believing that their motives are legitimate. "Spoofe websites and the use of publishing programs to create apparent legitimate documents are ju two examples of a kfraudster's ability.
>
> White-collar criminals tend to come from happier families than their criminal counterpa do. They are not generally victims of child abuse and do not come from poor neighbourhoods. This socio-economic condition also carries through to their prese circumstance, where the fraudster is often married, has a home and children, and is apparent successful both financially and socially.
>
> From an investigative point of view, fraudsters' criminal records are generally shorter tha those of other criminals. Their records will often start only a few months or years prior being exposed in their latest venture.
>
> In addition to having a shorter criminal record, their records will often show that sever charges would have been withdrawn or minimum sentences such as probation, restitution, conditional discharges were imposed. These minimum sentences often allow the criminal work under the radar of law enforcement and stalk their victims.

The portrait of a fraudster, then, is that of a successful individual with high self-esteem ar motivation. He or she is often kind, generous, and sociable, and comes across socially as an achiev and a doer, with a strong sense of family harmony. The fraudster also exhibits characteristics of sel ~~sufficiency, self-control, and optimism that make him or her likeable and someone that others~~ want t be associated with.

Although this portrait paints an individual that otherwise can be admired, the fraudster is still criminal and a parasite, preying on the generosity and honesty of others. Their main *raison d'être* is take from others in order to benefit only themselves.

IT'S ONLY $30,000 … THE COMPANY WON'T MISS IT

In January 1996, Debbie was employed by a large engineering company whose main clientele was t oil patch industry. Debbie held the position of accounts payable clerk for the company and had do so for thirteen years. During the period of her employment, Debbie had access to company cheques order to pay invoices submitted by suppliers to the company.

One day in February, Debbie forged a company cheque, payable to a contracted transportati company, by printing an unauthorized cheque and forging her manager's signature. This cheque w deposited into Debbie's bank account through an ATM in addition to her regular paycheque. In Marc Debbie forged a second company cheque, for the same transportation contractor, and again deposit the cheque into her account. In April, she forged a third cheque, and in June she forged two more. Th pattern continued for at least nine months. The total amount of the known deposits totalled ov $32,000.

In February of the following year, the chief financial officer of the company discover discrepancies during an audit of the company's books and informed the police. The chief financi officer also stated that all but one of the cheques had forged signatures.

As a condition of her employment, Debbie had provided the company with a void cheque to h personal account to allow the direct deposit of her salary. This allowed the police to obtain a searc warrant on her bank account and view her transactions. The account history showed that the chequ had been deposited through an ATM near where Debbie lived. Additionally, several other questionab deposits were noted during a review of Debbie's bank statement. Her fraudulent activities were n overly sophisticated, so upon closer examination of her records the cheques were readily traced to he However, there was still an element of planning necessary in order for Debbie to carry out her th from the company.

When the police confronted her, Debbie attempted suicide with an overdose of pills. When s recovered and was interviewed, Debbie claimed that her husband had no knowledge of the fraudule cheques, even though he benefited from the additional $32,000 income. Debbie pled guilty to t fraud. Her lawyer explained to the court that she showed remorse for her actions by virtue of h suicide attempt. The court agreed with the lawyer and Debbie was sentenced to one year probatio The company had to sue Debbie separately in civil court to recoup the money that Debbie h defrauded.

THE CORPORATE ENVIRONMENT

When dealing with business fraud, there are only two areas that must be looked at in order determine whether the company is at risk: the employees and the management of the company itse For a company to reduce the risk of fraud, nothing is more important than promoting an ethi environment in which the employees function.

Ethics cannot be determined by laws and rules. The laws establish a minimum standard behaviour expected by society as a whole, whereas ethics are principles that we can and should aspi to and demonstrate daily. In the business environment, ethical behaviour starts at the top and sets tl example for everyone to follow.

It comes down to the simple choice between what is right and what is wrong. Are the owner managers, and supervisors willing to lead by example and to not only "talk the talk" but "walk tl walk?" If the organization is committed to a policy of integrity, fair practice, and respect, tl managers, as the gatekeepers of the organization, must also practice this policy. As a manager th sets the tone of the working environment, do your employees know what is expected of them? Do yo employees understand what the position of the company is regarding ethics and respect in tl workplace?

It is no longer sufficient to expect someone "to know better." Not everyone has been exposed to tl same environmental experiences that shape our being. Expected conduct that has been defined mandatory for an individual to become part of the solution.

DEVELOPING A CORPORATE ENVIRONMENT

Organizations should have a written code of conduct which tells everyone in the organization what expected of them. It sets a standard that is realistic and achievable. Organizations also need to spe time on educating everyone in the company what the code of conduct is and why it is so important follow. This education should be done as part of an initial orientation and reviewed at an annu appraisal or evaluation.

When looking at the mechanics of an organization, there are a number of questions to ask to less the likelihood of internal business fraud.

- Is there a segregation of duties in the organization?
- Does one person control the purchasing, receivables, and payables for the organization?
- Does one person have access to organization assets and accounting records in order to cover u any dishonest activity? accounting records in order to cover up any dishonest activity?
- If there are no distinct personnel or department to handle all aspects of the business, are the internal controls that would prevent one person from dishonest acts? For example: D receiving slips have to be initialed by the person receiving them? Do the cheques have to l signed, or is there a stamp or signature machine?
- Are internal controls established and adhered to at all times? If signatures are not obtained, a there other forms that must be signed?
- If there is no purchase order do you allow items to be received or is the order checked and replacement purchase order prepared? is the order checked and a replacement purchase ord prepared?
- If there are internal controls, are there ways for someone to override those controls? If so, ca they be changed? If there are no internal controls can potential hazards be identified? Is the someone who can monitor these hazards regularly?

In Debbie's case, the workplace atmosphere enabled her to take advantage of the business and t commit her frauds. Debbie had control of, and was entrusted with, the accounts payable. This allowe her to authorize and issue cheques to companies and suppliers. It was these bogus cheques that foun their way into her account.

TAKE THIS CHEQUE AND CALL ME IN THE MORNING

Cindy was the manager for a doctor's office in Swift Current, Saskatchewan. She had been employe there for over four years and ran the office efficiently. Cindy ensured that billing for patients was se out on time and that all bill payments were posted and deposited.

To help run the office, Cindy purchased an accounting program that allowed her to track all of th patients according to the doctor they visited, whether the payments were from an insurance clai health plan, and so on.

After four years, the partners decided that they wanted to grow with the community and looked f investors and partners. Wanda was just what the doctors ordered. Wanda ran a chain of successfu physiotherapy clinics throughout the province and felt that the addition of this office wou complement her other business. Although not a medical practitioner herself, Wanda graduated with Masters in economics and business and knew what made a successful business.

Prior to taking over the business, Wanda reviewed the books and could see that the potential for th clinic to grow was excellent. With the number of patients and the proximity to a new sports comple Wanda and the partners had every expectation that the bottom line would be profitable to everyone.

After six months, the expected profits did not reach their anticipated levels. In fact, the clinic w losing money! This was the opposite of Wanda's experiences with her other clinics, and contradicte what the numbers should be saying. Wanda arranged for an independent audit to review the books. Th audit noted some discrepancies between entries and deposits. When questioned about th discrepancies, Cindy announced her resignation and walked out the door.

Unknown to Wanda and the other partners, when Cindy walked out of the clinic, she went directl to the Health Review Board. She filed a claim stating that the clinic was double-billing patients an health insurance claims. As a result, the Health Review Board entered the clinic offices and seized a of the computer records, shutting down the business for several days. This was a classic example o Cindy's part of "the best defense is a strong offence" in an effort to deflect the investigation awa from her.

The Health Board's three-month review showed that there were instances of double billing, but the were unable to determine who made the billings, whether they were deliberate, or whether they we simple accounting errors. As a result, the clinic was allowed to continue its operation but was liable t pay back the Health Board for duplicate billings.

So why was the business losing money? When Cindy first set up the accounting system and too over her management duties, she also set up a second bank account at a different bank. Cindy opene this account in her name, operating as the clinic. She did this in order to deposit cheques made out the clinic into her own account. She also obtained a company bank card that allowed her to make cas withdrawals at the casinos she frequented without anyone suspecting her personal account.

Cindy's employers did not know that she had a gambling problem. In fact, she had been convicte

five years earlier for stealing money from her previous employer in order to feed her gambling hab
In ~~the four years that Cindy operated as the clinic's manager, she managed to skim over $400,000~~ int
her duplicate account. All of this money went toward her gambling addiction.

In addition to the monetary loss to the company, this fraud caused irreparable damage to th
reputation of the clinic and the doctors, as well as damaging family relations from the extren
pressures placed upon the partners. One doctor felt that he could no longer practice in Swift Curre
and moved his business to another community.

CORPORATE STRUCTURE TO PREVENT AND REDUCE FRAUD

In the case of Cindy and the doctor's office, there was no segregation of responsibilities. Cindy w
responsible for the collection, recording, billing, and deposits of all money coming into the clinic.
was Cindy who bought and used the accounting program that allowed her to hide the transactions, ar
it was Cindy who made the actual deposits for the clinic. transactions, and it was Cindy who made th
actual deposits for the clinic.

Understandably, small businesses have to cut costs where they can, and sometimes margins are to
tight to hire another person. This is when the owner has to decide whether to be more "hands-on," hi
another person, or take his or her chances.

One of the simplest, yet most overlooked methods of fraud prevention is getting to know the peop
in the organization. In a small business, knowing your employees is vital. In larger corporations ar
institutions, it is incumbent on the managers and supervisors to display leadership by meetir
regularly with subordinates and allowing them to participate in the organization through feedback ar
openly sharing their ideas. Those people who feel that they are part of something are less likely
sabotage it and will strive to make it succeed. It used to be referred to as MBWA — Management b
Walking Around.

Most business fraudsters share common characteristics that can and should be recognizable
managers and human resources personnel. These traits can be divided into two areas: outward trai
and hidden traits.

OUTWARD TRAITS OF FRAUDSTERS

Television police parlance refers to these traits as the Means, Motive, and Opportunity (MMO) for
fraudster to successfully operate within an organization. Outward traits consist of the following b
are not necessarily limited to these. Fraudsters may present with all or only a few.

1. Long-term employee: This is the employee who has been with the company for many years.
used to be that when someone was hired he or she could look forward to a career that spann
twenty to thirty years. Nowadays, people change jobs and positions every five to ten years, s
the concept of the long-term employee is relative. This is not saying that the long-ter
employee will always be looking to defraud his or her company. Fortunately, this is not th
case. However, often when that same employee feels that he or she is not appreciated, or th

he or she has been passed over for promotion or advancement by younger or newer member resentment can build.

A manager must be cognizant of this and be proactive in his or her relationships with th long-term employee. They are often the ones who made the company what it is today, n matter how minor the contribution.

2. Position of trust: Generally, the internal fraudster holds a position of trust within th organization. The person is responsible for purchasing, payables, contract negotiation etcetera. This position of trust allows them to take advantage of the environment to their ow benefit.

   Placing an extra order and keeping the balance for themselves, or writing additional chequ to themselves is not uncommon or difficult to do. This is what internal controls are meant prevent.

3. Works overtime or never takes vacations: We have all worked overtime to complete a projec or meet a deadline. When starting or expanding our business, we don't take any time off for vacation or take the time to look after ourselves as much as we look after the business.

   Sometimes deadlines overtake us, or jobs require more effort than originally thought. This only natural in the real business world. Valued employees who believe that they are part of th organization will more than likely put in the extra effort; either for extra pay or extra time of or because they take pride in their work. However, not every job requires "Bob" fro accounting to put in one or two hours every day after everyone else has left the building. If does, Bob does not know his job as well as he should. A manager should ask himself wheth Bob should be retrained, if any personal reasons are affecting his work, or if he's managing h fraudulent schemes, and then act on his conclusion.

A fraudster will work so much overtime because it allows him the opportunity, within their positio of trust, to work on their scheme without interruption or detection. Photocopying of records, an shredding of purchase orders and shipping receipts can be done much more easily when no one around to monitor.

Fraudsters never take a vacation because someone else may come in to cover their position whi they are away, thus running the risk of having their schemes exposed. Lapping schemes and depos skimming are two schemes that, once the fraudster is away, the systems are out of his or her contr and subject to detection or collapsing. Lapping is when the fraudster continually transfers money fro different bank accounts, keeping ahead of the electronic transfers and hence overlapping the fund Deposit skimming is where the fraudster steals money and falsifies bank deposits to cover the thef Both of these schemes will be discussed in more detail further on.

In the next case, we will see how the fraudster exhibited these outward traits and how they we eventually discovered following a company audit, and a great deal of lost money to the company.

LICENCE TO PRINT MONEY

Rupert owned a successful advertising company in Kingston, Ontario, called Hi-Def Printing. Hi-D Printing specialized in print advertising — flyers, posters, and mailings. The company had sever contracts throughout the city and area, including a couple in Ottawa and Montreal. After three years, was time to take the next step and expand the operation.

After a substantial recruiting campaign, Larry Russell arrived as a suitable candidate to lead Hi-D Printing into a bright future. Russell brought a wealth of experience to the position. He had been advertising for over twenty years and owned his own smaller advertising company. Russell was able take over the reins immediately. The shareholders met and agreed to hire Russell as the compar CEO.

Under Russell's leadership, Hi-Def Printing took off. There were more contracts signed and eve walk-up business improved. Russell would constantly meet new clients and take them out for lunc paying in cash from the large roll of twenties that he always carried.

It seemed everything was moving in the direction the investors had hoped for. Then the compar received a notice of non-payment to one of their suppliers amounting to several thousand dollars. Th prompted a cursory review of Hi-Def Printing's finances. Although the company was busier than eve before, it was actually losing money.

The shareholders met and agreed to suspend Russell while an independent audit was conducted. Th audit discovered that in the thirty-six months that Russell had been in charge of the operations of H Def Printing, the company had an accounts receivable of $2.3 million and an accounts payable of $2 million. Russell was fired and a forensic audit was conducted on the company's books. The auc revealed that Russell had used the company's income to supplement his own business and person lifestyle.

Russell's base salary as CEO was agreed upon as $85,000, plus expenses. In the first year, Russe paid himself a bonus of $150,000 over and above his salary. In addition, Russell's expense accour actually equalled his base salary.

Russell had used Hi-Def Printing to sub-contract the contracts to his own smaller company, ar then billed Hi-Def Printing for the amount, which was often for more than what was agreed upon. H also constantly purchased supplies and equipment for his company through Hi-Def Printing, and ha them delivered to his company, sometimes "forgetting" to send the inventory to Hi-Def Printing.

The audit also showed discrepancies with the cash deposits. When a client paid in cash, the pap bills were initially deposited into a safe in Russell's office. The coins, on the other hand, were put in a large "Texas-Mickey" bottle that Russell kept beside his desk. This bottle served as the petty cas for the company.

Russell would make the cash deposits at the bank a few times a week; however, the cash billing rarely balanced with the deposits. In addition, these deposits were always for even-numbered amount $350.00, $425.00, $500.00, and so on. An audit of the receipts showed that the amounts should hav been more likely $387.53, $442.37, and $573.86. In other words, Russell was skimming deposits fro Hi-Def Printing. On average, $1,500 was skimmed from the cash deposits every month. The cas deposits only matched the bills and receipts during the times that Russell was away on holidays ar the assistant manager took over the bank deposits.

The audit also uncovered double billings on Russell's expense account for lunches, several with th shareholders of the company, and a more luxurious car than what had been agreed to by the compan There were external expenses that the audit was not able to confirm or track back to the company expenses.

Russell had recently purchased a new house in an acreage cul-de-sac, complete with swimmir pool, game room, home theatre system, and a three car garage where he parked his luxury car. He als held an annual block party for his neighbours with free food and liquor, and also sponsored an annu golf tournament for friends and clients — all expensed to the company.

HIDDEN TRAITS COMMON TO FRAUDSTERS

Hidden traits are just what they sound like. They are events and happenings in the fraudster's life th fellow employees or managers may not be aware of. When colleagues learn that an individu defrauded the company, invariably everyone says, "I should have known something was wrong," "She had changed after her divorce," or "I always wondered how he was able to afford that house and so on.

The following traits are often indicators or triggers for fraudulent activity. These traits do n always indicate fraudulent activity, but if there is a problem, they may be a starting place to look.

1. Living beyond one's means: Does the person live in a house or condo that is unrealistic inappropriate in relation to their salary? Do they drive an expensive import or luxury vehic or take extravagant and exotic holidays? Russell lived in a large house and held extravaga parties for friends and neighbours.
2. Change in personal circumstances: Has the person recently been divorced or lost someo close to them? Often a drastic change like this will cause that person to take a chance or ta risks just to "feel alive."
3. Emotional instability: As with a change in personal circumstances, being diagnosed with disease or depression will also cause a person to do something that otherwise would be total out of character or unexpected.
4. Drug or alcohol problem: Does the person show up at work hung-over or late? Drug a alcohol problems and the effects on family and work have been substantially document They will not be covered in this book, but they may be an indicator of fraudulent activities conjunction with other signs.
5. Gambling: Gambling is recognized as a mental illness that needs treatment. Wh interviewing fraudsters who had gambling as the root cause of their frauds, they claimed that was like being in a different state of mind. They did not know what they were doing or ho much money was being lost. Gambling became an addiction that they could not control. A conscious thought about the amount of money being lost, or where the money came fro became irrelevant.
6. Dissatisfaction: Has the person been constantly passed over for promotion or recognitio Have they received credit where credit was due? Was their performance that which is expect of a good or long-time employee?

These traits are not legal defences for committing fraud, although these issues may be raised by t defence attorney in court. However, some of these traits may be how the fraudster justifies the actions to themselves and to allow the fraudster to act "out of character." Getting to know one employees is the single most effective way for an owner or manager to prevent fraud and oth incidents, either criminal or socially inappropriate, in the workplace.

In the case involving Hi-Def Printing and Larry Russell, Hi-Def Printing lost over $850,000 as result of Russell’s activities. Russell was charged with theft for the deposit skimming, and fraud fo the ~~double billings on his expense account and purchases of supplies made for his own compan~~y an billed to Hi-Def Printing. The amount of money attributed to the criminal theft and fraud charges w approximately $80,000.

The other expenses that Russell racked up — his bonus and new car, etcetera — did not lead t Criminal Code charges due to the vagaries of Russell’s contract with Hi-Def Printing. The recovery o these expenses had to be determined in a long and separate civil court action.

sample content of Trust Me: Frauds, Schemes, and Scams and How to Avoid Them

- read online The Untold History of Ramen: How Political Crisis in Japan Spawned a Global Food Craze
- read online How To Live Forever
- click Above
- Unfolding Social Constructionism (History and Philosophy of Psychology) book
- download Frost Burned (Mercy Thompson, Book 7) pdf, azw (kindle), epub, doc, mobi

- http://qolorea.com/library/Learn-German-With-Paul-Noble.pdf
- http://honareavalmusic.com/?books/National-Geographic-Angry-Birds-Furious-Forces--The-Physics-at-Play-in-the-World-s-Most-Popular-Game.pdf
- http://metromekanik.com/ebooks/The-Routledge-Encyclopedia-of-the-Chinese-Language.pdf
- http://www.satilik-kopek.com/library/The-Portable-Edgar-Allan-Poe--Penguin-Classics-.pdf
- http://metromekanik.com/ebooks/China-and-Africa--Engagement-and-Compromise--Routledge-Contemporary-China-Series-.pdf